

October 1, 2002

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**ADJUSTMENTS TO THE FY 2002-03 ADOPTED COUNTY BUDGET TO REFLECT
CHANGES NECESSITATED BY FINAL ACTIONS
ON THE FY 2002-03 STATE BUDGET
(All Districts) (3-Votes)**

IT IS RECOMMENDED THAT YOUR BOARD:

Approve the attached appropriation adjustment reducing funds for various County departments in the amount of \$33.1 million to reflect final actions on the State's Fiscal Year 2002-03 Budget.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

As we reported to you on September 5, 2002, the recently adopted State Budget for FY 02-03 reflects a total impact of approximately \$179 million on Los Angeles County, of which \$88 million is related to the federal Food Stamp Error Rate Penalty. The County Budget adopted by your Board on June 26, 2002 included \$24.8 million of the impact. In addition, some of the State reductions have been mitigated by departments through the use of additional revenues or other cost savings and some of the reduction estimates have been modified as new information has been received.

The recommendations included in this letter represent adjustments necessary to bring appropriations into balance with our best estimate of available financing. It is important to note that these are still estimates based on historical allocations of State funding, as in many instances, the State has not yet determined the actual allocations for counties. Once this information is available, additional adjustments may be required. The recommended changes are summarized below:

Arts Commission

The State Budget reduces funding for the California Arts Council, the source of local grants, by nearly 40 percent. Funding for the Arts Commission is reduced by \$57,000; however, all but \$22,000 can be replaced with carryover State grant funding from prior years. Therefore, services and supplies is reduced by \$22,000 to offset the revenue shortfall. The Arts Commission reports that this reduction can be absorbed with only minimal impact on programs.

Public Library

The State Budget reduces statewide funding for the Public Library Foundation, the source of local library grants, by approximately \$21.4 million. The Los Angeles County Public Library's share of this reduction is \$2,160,000. A reduction of \$1,118,000 was anticipated in our Adopted Budget. Therefore, the additional shortfall is \$1,042,000 which is offset by a reduction in services and supplies (books and materials). The Library reports that this reduction will significantly limit the number of books and other materials that are available to the public.

Probation Department

The final State Budget eliminates fourth-year funding for the Challenge Grant Program. This program provided approximately \$2.3 million annually to Los Angeles County over the four-year period. The elimination of funding in year four (FY 02-03) will reduce new financing by \$2.3 million; however, some prior year carryover funding will mitigate the impact. Actual reductions are estimated at \$1,828,000. Salary and employee benefit funding for 12.0 positions is reduced by six months or \$355,000, and services and supplies are reduced by \$1,473,000. These reductions will ultimately impact approximately 800 minors who currently receive court-ordered services from 11 community-based organizations currently contracting with the Probation Department. Minors and their families will be required to seek outside resources to fulfill the court-mandated service requirements.

Department of Mental Health

The State Budget reduces funding for Mental Health by \$7,506,000 which also triggers a \$1,026,000 reduction in federal matching funds. Total reductions of \$8,532,000 occur as follows:

Children's System of Care funding for salaries and employee benefits is reduced by \$3,871,000, and 71.0 positions are eliminated. However, the department is working to mitigate the number of eliminated positions. These positions are currently vacant, and employees will not be impacted.

Adult System of Care funding for services and supplies is reduced by \$1,696,000. This reflects the elimination of State funding to provide services to the severely mentally ill adults with histories of homelessness and incarceration.

Mental Health Services for Adults (AB 2034) funding for services and supplies is reduced by \$913,000. This reflects a five percent reduction in State funding for the Integrated Services for Homeless Adults Program. This reduction will reduce the number of clients that can be served proportionately.

Managed Care Fee for Service Program funding for services and supplies is reduced by \$2,052,000. The State Budget rescinds the previously approved Medi-Cal rate increase to psychologists and psychiatrists. This reduces State funding to the County by \$1,026,000. A corresponding reduction in federal matching will also occur. Reduced rates may make it more difficult for the County to contract with providers.

Department of Public Social Services

In addition to an earlier reduction of \$19.8 million for CalWORKs, the final State Budget increased reductions in funding for Public Social Services' programs by \$19,825,000. The CalWORKs reductions are already reflected in the Adopted County Budget, and the additional reductions occur as follows:

Food Stamp Administration funding is reduced by \$5,329,000. This will necessitate a reduction of \$300,000 in services and supplies, and a reduction of \$5,029,000 in salaries and employee benefits achieved through the elimination of 89.0 positions. Specific impact upon employees cannot be determined at this time. Since 90 percent of CalWORKs participants receive Food Stamps, this reduction will have a significant impact upon some CalWORKs eligibility staff who are funded with Food Stamp revenue.

Medi-Cal Administration Funding is reduced by \$11,998,000. This reduction will necessitate a reduction of \$670,000 in services and supplies, and a reduction of \$11,328,000 in salaries and employee benefits achieved through the elimination of 204.0 positions. Specific impact upon employees cannot be determined at this time.

Special Circumstances Administration funding is eliminated thereby necessitating a reduction of \$522,000 in the Public Social Services Administration budget. This reduction will necessitate a reduction of \$30,000 in services and supplies, and a reduction of \$492,000 in salaries and employee benefits achieved through the elimination of 9.0 positions. Specific impact upon employees cannot be determined at this time. There is no NCC savings as there is no local match requirement for this program.

Special Circumstances Assistance funding is eliminated thereby necessitating a reduction of \$1,976,000 in other charges.

Department of Children and Family Services

The final State Budget makes a number of changes in funding for children's programs. Collectively, without mitigating action, the State reductions, with corresponding reductions in federal matches, would have resulted in a net funding reduction of as much as \$52.4 million.

Adoptions Administration funding is reduced by \$1,880,000 and the reduction will be taken in services and supplies.

Promoting Safe and Stable Families (PSSF) Program received additional funding in the amount of \$2,774,000 with no local matching requirement. This action is included in a separate report recommending other budgetary actions.

Child Welfare Services Administration funding was shifted so that in order to avoid a \$50.5 million program reduction, the County was required to provide a match of \$628,000. Funding in this amount is being recommended from the Appropriation for Contingencies in a separate letter.

Emergency Assistance - Temporary Aid for Need Families (EA - TANF) funding of \$371,000 is available with a local match of \$66,000. Funding in this amount is being recommended from the Appropriation for Contingencies in a separate letter.

Other State Funding Adjustments Addressed in Other Actions

As mentioned earlier in this letter, a \$19.8 million reduction in CalWORKs Administration funding was already incorporated into the Adopted County Budget. Community and Senior Services' adopted budget already reflects a \$2.4 million reduction in funding for Adult Protective Services. The Public Library's budget was reduced in the adopted budget by \$1.1 million. A \$60,000 reduction in grant funding from the Office of Criminal Justice Planning for the Public Defender has been offset with other revenues. Further, due to the prolonged uncertainties of the State Budget, the Sheriff opted not to include \$1.5 million in High Technology Grant funds in his budget. Health Services will utilize \$11.1 million of its reserve to offset the increase in the State's Disproportional State Hospital (DSH) Administration Fee.

Finally, the Federal Government may impose a \$88.0 million Food Stamp Error Rate penalty that is structured as follows:

	<u>FY 02-03</u>	<u>FY 03-04</u>	<u>FY 04-05</u>	<u>TOTAL</u>
Penalty Payment	\$ 22.0	\$ 22.0	\$ --	\$ 44.0
Program Reinvestment Requirement	11.1	10.9	--	22.0
Held in Abeyance	<u>- -</u>	<u>--</u>	<u>22.0</u>	<u>22.0</u>
Total	\$ 33.1	\$ 32.9	\$ 22.0	\$ 88.0

In a separate letter we are recommending that pending settlement of this issue, \$33.1 million be appropriated in provisional financing uses from the Appropriation for Contingency to fund this liability in FY 02-03. The \$22.0 million shown for FY 04-05 will be held at risk over three years, and will be payable if established food stamp error rates are not met.

Fiscal Impact

The fiscal impact of these recommendations are those stated above, and are necessary to keep the financing requirements of the County's budget in balance with available financing.

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Implementation of Strategic Plan Goals

The recommended actions support the County's Strategic Plan Goal #4 of fiscal responsibility by allocating increased subvention funding to designated programs and by reducing program requirements in mandated programs to reflect the funding available.

Justification of Recommended Action

Despite the negative impact that the recommended actions may have upon some programs, we believe it necessary to take the recommended actions as the State Budget continues to deteriorate and we believe the Governor may call a special session in November to propose further program reductions.

Respectfully Submitted,

DAVID E. JANSSEN
Chief Administrative Officer

DEJ:SRH:DL
RLM:lbm

Attachment

c: Each Department Head